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First Consultation Meeting on
the Iron and Steel Industry

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ISSUES SUGGESTED FOR CONSIDERATION BY THE FIRST CONSULTATION MEETING ON THE IRON AND STEEL INDUSTRY *

Note prepared by the secretariat of UNIDO

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INTRODUCTION

1. The Second General Conference of the United Nations Industrial Development Organization (UNIDO), held at Lima, Peru, in March 1975, declared that the developing countries' share of total world industrial production was so small that it should be increased as much as possible and should be at least 25 per cent by 2000.

2. The United Nations General Assembly, at its seventh special session in September 1975, endorsed the Lima Declaration and Plan of Action and requested UNIDO to establish a system of consultations on industry between developed and developing countries. The consultations are intended to explore ways to achieve the objective set at Lima and to attain a balanced distribution of industrial production and related activities amongst the developing and developed countries.

3. The developing countries' share of world industrial production will not necessarily be the same in all industrial sectors by 2000; in some sectors it may be less than 25 per cent, and in others it may be more. For the steel industry, which plays the basic strategic and dynamic role in industrial development, UNIDO secretariat estimates that developing countries will need to have a 30 per cent share of world steel production by 2000, if they are to cover their own basic needs and thus reduce their reliance on the imports that account at present for at least one third of their total steel requirements.

4. The first Consultation Meeting on the Iron and Steel Industry is therefore invited to consider the three following priority issues:

(a) To examine the expansion of steel demand and steel-making capacities over the short and medium terms (1985 and 1990) and long term (2000) and to encourage and support the full development of steel

projects consistent with the Lima Declaration, bearing in mind the special problems and prospects of developing countries with little or no steel production;

(b) To identify and stimulate ways and means of securing the availability and supply at an appropriate price of steel-making raw materials and providing technology and financial resources;

(c) With a view to implementing the objectives outlined above, to mobilize the required resources and to develop constructive international co-operation for the expansion of steel production and trade in developing and developed countries.

5. The secretariat of UNIDO has included these three priority issues in the Provisional Agenda[1/] of the First Consultation Meeting on the Iron and Steel Industry. The issues were selected on the advice of the Preparatory Meeting[2/] for the First Consultation Meeting, which considered the seven issues initially proposed by the UNIDO Secretariat and listed in the annex to an aide-memoire dated 5 November 1976. The selection of issues for the First Consultation Meeting is not exhaustive or final: the Meeting may decide to add issues to the Provisional Agenda or delete issues from it. And since, to maintain continuity, further Consultation Meetings are envisaged, there will be opportunities to consider other issues as well as matters relating to the three priority issues.

1/ ID/WG.243/1

2/ The Preparatory Meeting for Consultations on the Steel Industry was held in Vienna, from 7-11 December 1976. Participants from the following 23 countries attended the Preparatory Meeting: Algeria, Argentina, Australia, Austria, Brazil, Egypt, France, Federal Republic of Germany, India, Indonesia, Italy, Jamaica, Japan, Mexico, Pakistan, Peru, Romania, Sweden, Turkey, Union of Soviet Socialist Republics, United Kingdom, United States of America and Venezuela.

6. The Consultation Meeting is expected to reach a consensus on action to be taken, and this will involve co-operation between developed and developing countries and between developing countries themselves. In order to help participants to reach a consensus, the UNIDO Secretariat has used the discussion and conclusions of the Preparatory Meeting held earlier to prepare this note for their consideration. The suggestions should be viewed as a guide for discussion that will facilitate the drafting of a text that will reflect the discussions and consensus.

7. In view of the complexity of some of the subjects to be considered in the process of the consultations, the UNIDO Secretariat has included a suggestion that working groups on selected subjects should be established so that UNIDO can better consider further constructive action in areas to be agreed on, and can prepare specific proposals for consideration at the next Consultation Meeting on the Iron and Steel Industry.

8. Supporting material for the issues and suggestions contained in this note will be found in the following documents:

(a) Conclusions and Recommendations adopted by the Preparatory Meeting for the First Consultation Meeting on the Iron and Steel Industry[3/];

(b) Background and Supporting Information on Issues which might be selected for consideration at the Consultation Meeting[4/] (originally submitted to Preparatory Meeting: it covers the seven issues first suggested by the UNIDO secretariat);

(c) Draft World-wide Study of the Iron and Steel Industry 1975-2000[5/]

3/ Subsequently issued as document ID/WG. 241/4

4/ ID/WG.241/1/Rev. 1

5/ UNIDO/ICIS.25

SUGGESTED TEXTS RELATING TO THREE PRIORITY ISSUES SELECTED FOR CONSIDERATION AND POSSIBLE CONSENSUS AGREEMENT BY THE FIRST CONSULTATION MEETING ON THE IRON AND STEEL INDUSTRY

Issue I

TO EXAMINE THE EXPANSION OF STEEL DEMAND AND STEEL-MAKING CAPACITIES OVER THE SHORT AND MEDIUM TERMS (1985 AND 1990) AND LONG TERM (2000) AND TO ENCOURAGE AND SUPPORT THE FULL DEVELOPMENT OF STEEL PROJECTS IN THE DEVELOPING COUNTRIES CONSISTENT WITH THE LIMA DECLARATION BEARING IN MIND THE SPECIAL PROBLEMS AND PROSPECTS OF DEVELOPING COUNTRIES WITH LITTLE OR NO STEEL PRODUCTION

A. Targets for the expansion of steel demand and production

The participants in the Consultation Meeting,[1/]

Having examined the likely expansion of steel demand and steel-making capacity over the short, medium and long terms,

Keeping in view the Lima target for the developing countries to produce at least 25% of total world industrial production by 2000, and the basic strategic and dynamic contribution made by the steel industry to industrial development,

Taking into account the considerable raw-material resources, potential human resources and growing national and regional markets of the developing countries,

Recognizing that the developing countries need to reduce their reliance on the imports that account for at least one third of their total steel requirements as at present,

Considering that the consumption of steel (measured in terms of crude steel) is likely to increase:

(a) In developing countries, from about 90-100 million tons currently to 500-550 million tons in 2000;

(b) In developed countries, from about 600 million tons currently to about 1200 million tons in 2000;

and world production is therefore expected to increase from about 700 million tons currently to 1750 million tons in 2000,

Agree that the developing countries' share of the total world production of iron and steel may be as much as 30% by 2000.

1/ Representatives of Governments, industry and labour and other parties concerned.

B. Supporting the development of the steel industry in developing countries

The participants in the Consultation Meeting,[1/]

Recognizing that there will be a need to set up considerable new capacity for steel production in both developing and developed countries and that the increase will be proportionately greater in the developing countries in relation to their current capacity,

Considering that, while plans for the development of steel projects in developing countries should be pragmatically related to local, regional and other market requirements, the availability of local steel production in developing countries is likely to stimulate demand,

Emphasizing, therefore, that in view of the long period required to establish the industry, the present limited market should not inhibit or delay plans for local production,

Recognizing that, because the steel industry has a most useful and dynamic role to play in the economic development of any country, the justification for the creation of steel capacity cannot be based only on the conventional economic viability point of view but should also take into consideration the over-all economic and social benefits deriving from the operation of steel plants and the use of steel products,

Recognizing further that developing countries that currently have little or no steel production may be able to establish a steel industry that is well adapted to the size of the national or regional market and the local availability of raw materials and other resources,

Stressing that the expansion of steel production capacity envisaged will depend upon many factors including greater international co-operation,

1. Agree to fully encourage and support the development of steel projects in developing countries,

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1/ Representatives of Governments, industry and labour and other parties concerned.

2. Request the secretariat of UNIDO, in co-operation with the parties concerned:

(a) To compile a list of steel plants which developed and developing countries plan to establish in the period up to 1990 and beyond;

(b) To promote actively a continuous exchange of information on the progress made by the developing and developed countries in increasing production of steel at a rate consistent with the achievement of their long-term goals;

(c) To identify any obstacles to the development of the world steel industry and suggest ways to overcome them;

(d) To consider measures that would stimulate the orderly growth of the steel industry in developed and developing countries;

(e) To submit a progress report on these matters for consideration at the next Consultation Meeting on the Iron and Steel Industry.

Issue IX

TO IDENTIFY AND STIMULATE WAYS AND MEANS OF SECURING THE AVAILABILITY AND SUPPLY AT AN APPROPRIATE PRICE OF STEEL-MAKING RAW MATERIALS AND PROVIDING TECHNOLOGY AND FINANCIAL RESOURCES

A. Availability, supply and pricing of raw materials for steel-making

The participants in the Consultation Meeting,[1/]

Recognizing that world demand for raw materials for steel-making is likely to more than double by 2000 and that there is therefore a need to ensure that adequate supplies are always available throughout the world,

Recalling that although there are adequate reserves of iron ore and fluxes for the future development of the world steel industry as envisaged, measures must be taken to develop new mines, transportation systems and related infrastructure,

Realizing that, because the international prices of iron ores and pellets are too low in relation to the rising costs of their extraction and processing and the import prices for steel products, appropriate national and international measures are needed to enable countries producing iron ore to obtain prices which will promote the expansion of existing mining capacities and encourage new investment,

Considering that in view of the difficulties experienced by various steel-producing countries in the past in securing adequate supplies of coking coal for their industries, special efforts are needed to ensure a sufficient supply of coking coal to the world steel industry,

Considering that it is often advantageous to both countries producing raw materials and countries importing steel products to promote the local processing of raw materials so as to generate "added value" for export, and thus enable raw-material producing countries to obtain higher returns,

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1/ Representatives of Governments, industry and labour and other parties concerned.

Recognizing that iron ore is one of the commodities initially selected for consideration in UNCTAD's Integrated Commodity Approach and that UNIDO will therefore need to co-operate closely with UNCTAD over raw materials for the steel industry,

1. Agree that UNIDO, in co-operation with other bodies concerned should:

(a) Review the plans and progress made in developed and developing countries to increase the production of raw materials for the steel industry and consider what measures are needed to ensure an adequate supply of these raw materials;

(b) Examine alternative modalities for price formation including stock piling arrangements, that would ensure the timely development of additional production of raw materials at prices equitable to both producers and consumers; explore the international marketing and distribution arrangements needed to improve the developing countries' access to raw materials; and study opportunities and mechanisms for the exchange of essential raw materials such as ore, fuels, and fluxes between developed and developing countries, and between the developing countries themselves;

(c) Survey current mining legislation in developing countries, consider the incentives needed for new investments in their mining industries, and suggest appropriate forms of international co-operation, such as joint ventures, to promote new mining investments;

(d) Encourage the application of new technologies relating to more economical use of coking coal, the use of charcoal and the use of alternative reductants such as natural gas,

2. Invite UNIDO and UNCTAD to establish at an early date a joint working group on raw materials for steel manufacture to facilitate the efficient accomplishment of the measures mentioned in paragraph 1.

3. Request the working group on raw materials for steel manufacture to submit its conclusions, through the Executive Director of UNIDO, for consideration at the next Consultation Meeting on the Iron and Steel Industry.

B. Technology for the development of the steel industry in the developing countries

The participants in the Consultation Meeting,[1/]

Recognizing the need to intensify international co-operation so as to provide technology specifically designed for the future development of the steel industry in the developing countries, including those with little or no steel production at present,

Recalling that technology should be carefully chosen to suit local conditions in developing countries, bearing in mind the need to minimize the risks associated with applying unproven technologies,

Recognizing that, if technology is to be transferred effectively to developing countries, local experts must be associated with foreign experts at all stages of the planning, design, construction and operation of steel plants,

Noting that some developing countries, when establishing steel industries, set up planning departments that subsequently grew into indigenous technical consultancy design and engineering organizations and that the developing countries need the support of the international community to develop their own national, subregional or regional technical consultancy services,

Recognizing that the developing countries and their suppliers need to find new ways to minimize the developing countries risks and accompanying losses arising from defects in the design of steel plants and equipment,

Agree:

(a) That contracts for the installation of steel plants in developing countries should include:

(i) Adequate provisions for a continuing flow of information on the latest technological developments and know-how on equitable terms;

1/ Representatives of Governments, industry and labour and other parties concerned.

(ii) Adequate guarantees against possible deficiencies in the design of steel plants and equipment and positive arrangements for the association of local engineering services during the design, construction and operation of such plants;

and that UNIDO, in co-operation with other parties concerned, should draft model clauses for inclusions in such contracts;

(b) That arrangements should be made for existing iron and steel research and development institutes in both developed and developing countries and related bodies to advise on the adaptation of technology that could suit the needs of individual developing countries or groups of them and to report on progress made to the next Consultation Meeting on the Iron and Steel Industry;

(c) That UNIDO should consider how the industries and Governments of the developed and developing countries concerned could be continuously involved, inter alia through their technical support, financing and guarantee schemes, in promoting the development, testing and initial installation of new manufacturing processes based on adapted technologies most appropriate for the needs of the developing countries.

C. Manufacture of capital goods in the developing countries

The participants in the Consultation Meeting[1/],

Accepting that there will be a vast demand for capital goods to meet the envisaged increase in world steel capacity by 2000 and that there will be scope for mutually advantageous participation by both developed and developing countries in the production of capital goods for the steel industry,

Believing that, because of the large amounts of foreign exchange involved in importing equipment for steel plants, it is desirable for many developing countries to have an indigenous source of supply of capital goods and equipment for the steel industry,

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1/ Representatives of Governments, industry and labour and other parties concerned.

Considering that the establishment of capital-goods manufacturing industries in developing countries could be facilitated by joint ventures between suppliers and client countries, including joint ventures between certain of the developing countries,

Recognizing that the development of a capital-goods manufacturing capacity is a logical development after the establishment of steel plants and that the heavy engineering industry not only serves the steel industry but is also able to manufacture capital goods for other industries,

Recognizing further the importance of the capital goods industry for the development of other industries as well as that of the steel industry,

Agree to request UNIDO to convene a separate consultation meeting on capital goods and related technology.

D. Financing for the development of the iron and steel industry in the developing countries

The participants in the Consultation Meeting[1/],

Noting the large amount of financing that will be required for the envisaged expansion of the steel industry in the developing countries in the period up to 2000,

Realizing that the implementation of decisions by developing countries to establish steel plants depends on securing the necessary financing,

Realizing further that the problem of securing the necessary financing is likely to continue to be the main obstacle to the development of the iron and steel industry, particularly in the developing countries,

Emphasizing the need to adapt the terms and conditions of financing to the special requirements of steel projects and the conditions prevailing in developing countries,

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1/ Representatives of Governments, industry and labour and other parties concerned.

Stressing that general economic development benefits resulting from the creation of an iron and steel industry should be highlighted and quantified so as to enable the international financing agencies to provide financial assistance to the developing countries,

1. Urge Governments and the international banking community to treat as a matter of priority the mobilization of the financing required to expand the steel industry in developing countries and to ensure that the financing is provided on appropriate terms and conditions.

2. Agree to request UNIDO, in co-operation with other parties concerned, to examine:

(a) The problems faced by the developing countries in raising a sufficient volume of funds from domestic and external sources to finance new steel plants and associated infrastructure facilities;

(b) The suitability of the terms and conditions on which financing is provided to the developing countries for the construction of steel plants and associated infrastructure and the changes required in these terms, taking into account such factors as the extended construction periods and high capital intensity associated with the establishment of the steel industry, and that financial arrangements should include grace periods to cover the time taken for a steel plant to reach full rated capacity;

(c) The nature and content of the guarantees that should be provided in order to attract large external contributions to the financing of steel plants in developing countries;

3. Invite UNIDO to establish a working group on the financing of the iron and steel industry, so that UNIDO can better consider further constructive action on the issues proposed above and prepare specific proposals for consideration at the next Consultation Meeting on the Iron and Steel Industry.

Issue III

WITH A VIEW TO IMPLEMENTING THE OBJECTIVES OUTLINED ABOVE, TO MOBILIZE THE REQUIRED RESOURCES AND TO DEVELOP CONSTRUCTIVE INTERNATIONAL CO-OPERATION FOR THE EXPANSION OF STEEL PRODUCTION AND TRADE IN DEVELOPING AND DEVELOPED COUNTRIES

A. The basis for and scope of the constructive international co-operation needed for the expansion of steel production in developing and developed countries and trade between them

The participants in the Consultation Meeting[1/],

Recalling that world demand for and production of steel will continue to grow to more than double its present level by 2000,

Recalling further that the development of the steel industry in the developing countries is essential if they are to maximize the use of their own raw materials by producing value added products, satisfy as far as possible the needs of their own markets, and build a strong foundation for their industrialization,

Noting that the developing countries are increasingly able to construct steel plants of a size and type suited to their market requirements,

Recognizing that there is a special need to provide some of the developing countries producing little or no steel at present with constructive technical assistance from international bodies,

Bearing in mind that the development of indigeneous human skills is a major factor in the planning, installation and operation of a steel industry and that there is therefore a need for constructive international co-operation to ensure the training of personnel at all levels,

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1/ Representatives of Governments, industry and labour and other parties concerned.

Recognizing further that the developed countries will be faced with a progressive depletion of their natural resources and raw materials for the steel industry, considering that raw materials produced in the developing countries will increasingly be required not only to meet the growing needs of their expanding steel industries but also for the expansion of the steel industry in the developed countries,

Bearing in mind that, because of the substantial cost of transporting raw materials from developing to developed countries and of transporting finished steel products back to developing countries, it would be to their mutuel advantage if a much greater proportion of world steel production were located in the countries that produce the raw materials,

Noting that it is difficult in certain developed countries to find suitable locations for new steel plants because of a growing concern for the environment,

Accepting that, with the exception of some developing countries, the developed countries will continue, for a long time, to be the major producers of equipment for the steel industry,

Stressing that, in order to help finance growing imports of costly equipment for steel manufacture, the developing countries should gradually reduce their reliance on imports of steel by increasing their local production of steel products for their own use and for export,

Recognizing that although the developing countries are aiming for self-sufficiency by 2000, their steel production in the interim period is unlikely to be sufficient to satisfy a rapid growth in the local use of steel for building infrastructure and for industrialization,

Noting that, since the products of the steel industry are becoming increasingly diversified, a great expansion of trade in steel products between developed and developing countries can be expected and that, consequently, a change in the type of steel products exported by the developed countries and the pattern of their steel industry can also be expected,

Accepting that solutions have to be found to the problem of mobilizing sufficient financial resources for the required expansion of steel production in developing countries, inter alia, by encouraging sources of finance to take into account the general developmental benefits for all concerned resulting from the creation of a steel industry,

Agree that constructive international co-operation based on the expansion of steel production in developing countries and the resulting changing pattern of international trade is to the mutual advantage of both developed and developing countries.

B. Follow-up action to promote constructive international co-operation

The participants in the Consultation Meeting,[1/]

Bearing in mind the decision of the General Assembly that a system of consultations as provided for by the Lima Plan of Action should be established in order to facilitate the achievement of the goals set forth in the field of industrialization and that, in this context, the United Nations Industrial Development Organization should serve as a forum for negotiation of agreements in the field of industry between developed and developing countries and among developing countries themselves, at the request of the countries concerned,[2/]

1/ Representatives of Governments, industry and labour and other parties concerned.

2/ General Assembly Resolution 3362 (S-VII), Section IV, paragraph 3.

Recalling that the Lima Declaration and Plan of Action indicated that consultations should in particular relate to industries processing raw materials exported by developing countries or which consume vast quantities of energy, and should result in concrete proposals for inclusion in the development programmes of participating developing countries[3/],

Noting that the process of consultations between developed countries and developing countries and between the developing countries themselves is intended to be a continuing one,

Recommend that:

(a) UNIDO should convene the Second Consultation Meeting on the Iron and Steel Industry in 1978 to reach agreement on specific proposals for constructive international co-operation on topics selected by this First Consultation Meeting;

(b) In order to make specific proposals, UNIDO and other bodies concerned should examine during the interim period ways to promote constructive international co-operation on plans for the establishment of new steel plants and on the raw materials, technology, capital goods and financing required;

(c) In order to develop the specific proposals, the Executive Director of UNIDO should convene working groups on the following topics:

(i) Raw materials for the iron and steel industry;

(ii) The financing of iron and steel industry projects.

3/ Lima Declaration and Plan of Action on Industrial Development and Co-operation, paragraph 61(d).